

104TH CONGRESS
1ST SESSION

S. 182

To amend the Internal Revenue Code of 1986 to encourage investment in the United States by reforming the taxation of capital gains, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 9, 1995

Mr. HATCH introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to encourage investment in the United States by reforming the taxation of capital gains, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Capital Formation and Job Creation Act of 1995”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 **SEC. 2. 50 PERCENT CAPITAL GAINS DEDUCTION.**

4 (a) GENERAL RULE.—Part I of subchapter P of
 5 chapter 1 (relating to treatment of capital gains) is
 6 amended to read as follows:

7 **“PART I—TREATMENT OF CAPITAL GAINS**

“Sec. 1201. Capital gains deduction.

8 **“SEC. 1201. CAPITAL GAINS DEDUCTION.**

9 “(a) GENERAL RULE.—If for any taxable year a tax-
 10 payer has a net capital gain, 50 percent of such gain shall
 11 be a deduction from gross income.

12 “(b) ESTATES AND TRUSTS.—In the case of an es-
 13 tate or trust, the deduction shall be computed by excluding
 14 the portion (if any) of the gains for the taxable year from
 15 sales or exchanges of capital assets which, under sections
 16 652 and 662 (relating to inclusions of amounts in gross
 17 income of beneficiaries of trusts), is includible by the in-
 18 come beneficiaries as gain derived from the sale or ex-
 19 change of capital assets.

20 “(c) COORDINATION WITH TREATMENT OF CAPITAL
 21 GAIN UNDER LIMITATION ON INVESTMENT INTEREST.—
 22 For purposes of this section, the net capital gain for any
 23 taxable year shall be reduced (but not below zero) by the

1 amount which the taxpayer takes into account as invest-
2 ment income under section 163(d)(4)(B)(iii).

3 “(d) TRANSITIONAL RULE.—

4 “(1) IN GENERAL.—In the case of a taxable
5 year which includes January 1, 1995—

6 “(A) the amount taken into account as the
7 net capital gain under subsection (a) shall not
8 exceed the net capital gain determined by only
9 taking into account gains and losses properly
10 taken into account for the portion of the tax-
11 able year on or after January 1, 1995, and

12 “(B) if the net capital gain for such year
13 exceeds the amount taken into account under
14 subsection (a), the rate of tax imposed by sec-
15 tion 1 on such excess shall not exceed 28 per-
16 cent.

17 “(2) SPECIAL RULES FOR PASS-THRU ENTI-
18 TIES.—

19 “(A) IN GENERAL.—In applying paragraph
20 (1) with respect to any pass-thru entity, the de-
21 termination of when gains and losses are prop-
22 erly taken into account shall be made at the en-
23 tity level.

“(B) PASS-THRU ENTITY DEFINED.—For purposes of subparagraph (A), the term ‘pass-thru entity’ means—

“(i) a regulated investment company,

“(ii) a real estate investment trust,

“(iii) an S corporation,

“(iv) a partnership,

“(v) an estate or trust, and

“(vi) a common trust fund.”

(b) DEDUCTION ALLOWABLE IN COMPUTING ADJUSTED GROSS INCOME.—Subsection (a) of section 62 is amended by inserting after paragraph (15) the following new paragraph:

“(16) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 1201.”

(c) TECHNICAL AND CONFORMING CHANGES.—

(1) Section 13113 of the Revenue Reconciliation Act of 1993 (relating to 50-percent exclusion for gain from certain small business stock), and the amendments made by such section, are hereby repealed; and the Internal Revenue Code of 1986 shall be applied as if such section (and amendments) had never been enacted.

(2) Section 1 is amended by striking subsection (h).

1 (3) Paragraph (1) of section 170(e) is amended
2 by striking “the amount of gain” in the material fol-
3 lowing subparagraph (B)(ii) and inserting “50 per-
4 cent of the amount of gain”.

5 (4)(A) Paragraph (2) of section 172(d) is
6 amended to read as follows:

7 “(2) CAPITAL GAINS AND LOSSES.—

8 “(A) LOSSES OF TAXPAYERS OTHER THAN
9 CORPORATIONS.—In the case of a taxpayer
10 other than a corporation, the amount deductible
11 on account of losses from sales or exchanges of
12 capital assets shall not exceed the amount in-
13 cludible on account of gains from sales or ex-
14 changes of capital assets.

15 “(B) DEDUCTION UNDER SECTION 1201.—
16 The deduction under section 1201 shall not be
17 allowed.”

18 (B) Subparagraph (B) of section 172(d)(4) is
19 amended by striking “paragraphs (1) and (3)” and
20 inserting “paragraphs (1), (2)(B), and (3)”.

21 (5) Paragraph (4) of section 642(c) is amended
22 to read as follows:

23 “(4) ADJUSTMENTS.—To the extent that the
24 amount otherwise allowable as a deduction under
25 this subsection consists of gain from the sale or ex-

1 change of capital assets held for more than 1 year,
2 proper adjustment shall be made for any deduction
3 allowable to the estate or trust under section 1201
4 (relating to deduction for excess of capital gains over
5 capital losses). In the case of a trust, the deduction
6 allowed by this subsection shall be subject to section
7 681 (relating to unrelated business income).”

8 (6) Paragraph (3) of section 643(a) is amended
9 by adding at the end the following new sentence:
10 “The deduction under section 1201 (relating to de-
11 duction of excess of capital gains over capital losses)
12 shall not be taken into account.”

13 (7) Paragraph (4) of section 691(c) is amended
14 by striking “sections 1(h), 1201, and 1211” and in-
15 serting “sections 1201 and 1211”.

16 (8) The second sentence of section 871(a)(2) is
17 amended by inserting “such gains and losses shall be
18 determined without regard to section 1201 (relating
19 to deduction for capital gains) and” after “except
20 that”.

21 (9) Subsection (d) of section 1044 is amended
22 by striking the last sentence.

23 (10)(A) Paragraph (2) of section 1211(b) is
24 amended to read as follows:

25 “(2) the sum of—

1 “(A) the excess of the net short-term cap-
2 ital loss over the net long-term capital gain, and

3 “(B) one-half of the excess of the net long-
4 term capital loss over the net short-term capital
5 gain.”

6 (B) So much of paragraph (2) of section
7 1212(b) as precedes subparagraph (B) thereof is
8 amended to read as follows:

9 “(2) SPECIAL RULES.—

10 “(A) ADJUSTMENTS.—

11 “(i) For purposes of determining the
12 excess referred to in paragraph (1)(A),
13 there shall be treated as short-term capital
14 gain in the taxable year an amount equal
15 to the lesser of—

16 “(I) the amount allowed for the
17 taxable year under paragraph (1) or
18 (2) of section 1211(b), or

19 “(II) the adjusted taxable income
20 for such taxable year.

21 “(ii) For purposes of determining the
22 excess referred to in paragraph (1)(B),
23 there shall be treated as short-term capital
24 gain in the taxable year an amount equal
25 to the sum of—

1 “(I) the amount allowed for the
2 taxable year under paragraph (1) or
3 (2) of section 1211(b) or the adjusted
4 taxable income for such taxable year,
5 whichever is the least, plus

6 “(II) the excess of the amount
7 described in subclause (I) over the net
8 short-term capital loss (determined
9 without regard to this subsection) for
10 such year.”

11 (11) Paragraph (1) of section 1402(i) is amend-
12 ed by inserting “, and the deduction provided by sec-
13 tion 1201 shall not apply” before the period at the
14 end thereof.

15 (12) Section 12 is amended by striking para-
16 graph (4) and redesignating the following para-
17 graphs accordingly.

18 (13) Paragraph (2) of section 527(b) is hereby
19 repealed.

20 (14) Subparagraph (D) of section 593(b)(2) is
21 amended by adding “and” at the end of clause (iii),
22 by striking “, and” at the end of clause (iv) and in-
23 serting a period, and by striking clause (v).

24 (15) Paragraph (2) of section 801(a) is hereby
25 repealed.

1 (16) Subsection (c) of section 831 is amended
2 by striking paragraph (1) and redesignating the fol-
3 lowing paragraphs accordingly.

4 (17)(A) Subparagraph (A) of section 852(b)(3)
5 is amended by striking “, determined as provided in
6 section 1201(a), on” and inserting “of 17.5 percent
7 of”.

8 (B) Clause (iii) of section 852(b)(3)(D) is
9 amended—

10 (i) by striking “65 percent” and inserting
11 “82.5 percent”, and

12 (ii) by striking “section 1201(a)” and in-
13 serting “subparagraph (A)”.

14 (18) Clause (ii) of section 857(b)(3)(A) is
15 amended by striking “determined at the rate pro-
16 vided in section 1201(a) on” and inserting “of 17.5
17 percent of”.

18 (19) Paragraph (1) of section 882(a) is amend-
19 ed by striking “section 11, 55, 59A, or 1201(a)”
20 and inserting “section 11, 55, or 59A”.

21 (20) Subsection (b) of section 904 is amended
22 by striking paragraphs (2)(B), (3)(B), (3)(D), and
23 (3)(E).

24 (21) Subsection (b) of section 1374 is amended
25 by striking paragraph (4).

1 (22) Subsection (b) of section 1381 is amended
2 by striking “or 1201”.

3 (23) Subsection (e) of section 1445 is amend-
4 ed—

5 (A) in paragraph (1) by striking “35 per-
6 cent (or, to the extent provided in regulations,
7 28 percent)” and inserting “17.5 percent (or, to
8 the extent provided in regulations, 19.8 per-
9 cent)”, and

10 (B) in paragraph (2) by striking “35 per-
11 cent” and inserting “17.5 percent”.

12 (24) Clause (i) of section 6425(c)(1)(A) is
13 amended by striking “or 1201(a)”.

14 (25) Clause (i) of section 6655(g)(1)(A) is
15 amended by striking “or 1201(a)”.

16 (26)(A) The second sentence of section
17 7518(g)(6)(A) is amended—

18 (i) by striking “during a taxable year to
19 which section 1(h) or 1201(a) applies”, and

20 (ii) by striking “28 percent (34 percent”
21 and inserting “19.8 percent (17.5 percent”.

22 (B) The second sentence of section
23 607(h)(6)(A) of the Merchant Marine Act, 1936 is
24 amended—

1 (i) by striking “during a taxable year to
 2 which section 1(h) or 1201(a) of such Code ap-
 3 plies”, and

4 (ii) by striking “28 percent (34 percent”
 5 and inserting “19.8 percent (17.5 percent”.

6 (d) EFFECTIVE DATE.—

7 (1) IN GENERAL.—Except as otherwise pro-
 8 vided in this subsection, the amendments made by
 9 this section shall apply to taxable years ending after
 10 December 31, 1994.

11 (2) CONTRIBUTIONS.—The amendment made
 12 by subsection (c)(3) shall apply only to contributions
 13 on or after January 1, 1995.

14 (3) WITHHOLDING.—The amendment made by
 15 subsection (c)(23) shall apply only to amounts paid
 16 after the date of the enactment of this Act.

17 **SEC. 3. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**
 18 **DETERMINING GAIN OR LOSS.**

19 (a) IN GENERAL.—Part II of subchapter O of chap-
 20 ter 1 (relating to basis rules of general application) is
 21 amended by inserting after section 1021 the following new
 22 section:

23 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
 24 **OF DETERMINING GAIN OR LOSS.**

25 “(a) GENERAL RULE.—

1 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
 2 JUSTED BASIS.—Except as otherwise provided in
 3 this subsection, if an indexed asset which has been
 4 held for more than 1 year is sold or otherwise dis-
 5 posed of, for purposes of this title the indexed basis
 6 of the asset shall be substituted for its adjusted
 7 basis.

8 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
 9 The deduction for depreciation, depletion, and amor-
 10 tization shall be determined without regard to the
 11 application of paragraph (1) to the taxpayer or any
 12 other person.

13 “(b) INDEXED ASSET.—

14 “(1) IN GENERAL.—For purposes of this sec-
 15 tion, the term ‘indexed asset’ means—

16 “(A) stock in a corporation, and

17 “(B) tangible property (or any interest
 18 therein),

19 which is a capital asset or property used in the trade
 20 or business (as defined in section 1231(b)).

21 “(2) CERTAIN PROPERTY EXCLUDED.—For
 22 purposes of this section, the term ‘indexed asset’
 23 does not include—

1 “(A) CREDITOR’S INTEREST.—Any interest
2 in property which is in the nature of a credi-
3 tor’s interest.

4 “(B) OPTIONS.—Any option or other right
5 to acquire an interest in property.

6 “(C) NET LEASE PROPERTY.—In the case
7 of a lessor, net lease property (within the mean-
8 ing of subsection (i)(3)).

9 “(D) CERTAIN PREFERRED STOCK.—Stock
10 which is fixed and preferred as to dividends and
11 does not participate in corporate growth to any
12 significant extent.

13 “(E) STOCK IN FOREIGN CORPORA-
14 TIONS.—Stock in a foreign corporation.

15 “(F) STOCK IN S CORPORATIONS.—Stock
16 in an S corporation.

17 “(3) EXCEPTION FOR STOCK IN FOREIGN COR-
18 PORATION WHICH IS REGULARLY TRADED ON NA-
19 TIONAL OR REGIONAL EXCHANGE.—Paragraph
20 (2)(E) shall not apply to stock in a foreign corpora-
21 tion the stock of which is listed on the New York
22 Stock Exchange, the American Stock Exchange, the
23 national market system operated by the National As-
24 sociation of Securities Dealers, or any domestic re-

1 gional exchange for which quotations are published
2 on a regular basis other than—

3 “(A) stock of a foreign investment com-
4 pany (within the meaning of section 1246(b)),

5 “(B) stock in a passive foreign investment
6 company (as defined in section 1296), and

7 “(C) stock in a foreign corporation held by
8 a United States person who meets the require-
9 ments of section 1248(a)(2).

10 “(4) TREATMENT OF AMERICAN DEPOSITORY
11 RECEIPTS.—For purposes of this section, an Amer-
12 ican depository receipt for stock in a foreign cor-
13 poration shall be treated as stock in such corpora-
14 tion.

15 “(c) INDEXED BASIS.—For purposes of this sec-
16 tion—

17 “(1) GENERAL RULE.—The indexed basis for
18 any asset is—

19 “(A) the adjusted basis of the asset, multi-
20 plied by

21 “(B) the applicable inflation ratio.

22 “(2) APPLICABLE INFLATION RATIO.—The ap-
23 plicable inflation ratio for any asset is the percent-
24 age arrived at by dividing—

1 “(A) the gross domestic product deflator
2 for the calendar quarter in which the disposi-
3 tion takes place, by

4 “(B) the gross domestic product deflator
5 for the calendar quarter in which the asset was
6 acquired by the taxpayer (or, if later, the cal-
7 endar quarter ending on December 31, 1994).

8 The applicable inflation ratio shall never be less than
9 1. The applicable inflation ratio for any asset shall
10 be rounded to the nearest $\frac{1}{1000}$.

11 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—
12 The gross domestic product deflator for any cal-
13 endar quarter is the implicit price deflator for the
14 gross domestic product for such quarter (as shown
15 in the first revision thereof).

16 “(d) SHORT SALES.—

17 “(1) IN GENERAL.—In the case of a short sale
18 of an indexed asset with a short sale period in excess
19 of 1 year, for purposes of this title, the amount real-
20 ized shall be an amount equal to the amount realized
21 (determined without regard to this paragraph) mul-
22 tiplied by the applicable inflation ratio. In applying
23 subsection (c)(2) for purposes of the preceding sen-
24 tence, the date on which the property is sold short
25 shall be treated as the date of acquisition and the

1 closing date for the sale shall be treated as the date
2 of disposition.

3 “(2) SHORT SALE OF SUBSTANTIALLY IDEN-
4 TICAL PROPERTY.—If the taxpayer or the taxpayer’s
5 spouse sells short property substantially identical to
6 an asset held by the taxpayer, the asset held by the
7 taxpayer and the substantially identical property
8 shall not be treated as indexed assets for the short
9 sale period.

10 “(3) SHORT SALE PERIOD.—For purposes of
11 this subsection, the short sale period begins on the
12 day after property is sold and ends on the closing
13 date for the sale.

14 “(e) TREATMENT OF REGULATED INVESTMENT
15 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

16 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

17 “(A) IN GENERAL.—Except as otherwise
18 provided in this paragraph, the adjustment
19 under subsection (a) shall be allowed to any
20 qualified investment entity (including for pur-
21 poses of determining the earnings and profits of
22 such entity).

23 “(B) EXCEPTION FOR QUALIFICATION
24 PURPOSES.—This section shall not apply for
25 purposes of sections 851(b) and 856(c).

1 “(2) ADJUSTMENTS TO INTERESTS HELD IN
2 ENTITY.—

3 “(A) IN GENERAL.—Stock in a qualified
4 investment entity shall be an indexed asset for
5 any calendar month in the same ratio as the
6 fair market value of the assets held by such en-
7 tity at the close of such month which are in-
8 dexed assets bears to the fair market value of
9 all assets of such entity at the close of such
10 month.

11 “(B) RATIO OF 90 PERCENT OR MORE.—If
12 the ratio for any calendar month determined
13 under subparagraph (A) would (but for this
14 subparagraph) be 90 percent or more, such
15 ratio for such month shall be 100 percent.

16 “(C) RATIO OF 10 PERCENT OR LESS.—If
17 the ratio for any calendar month determined
18 under subparagraph (A) would (but for this
19 subparagraph) be 10 percent or less, such ratio
20 for such month shall be zero.

21 “(D) VALUATION OF ASSETS IN CASE OF
22 REAL ESTATE INVESTMENT TRUSTS.—Nothing
23 in this paragraph shall require a real estate in-
24 vestment trust to value its assets more fre-
25 quently than once each 36 months (except

1 where such trust ceases to exist). The ratio
2 under subparagraph (A) for any calendar
3 month for which there is no valuation shall be
4 the trustee's good faith judgment as to such
5 valuation.

6 “(3) QUALIFIED INVESTMENT ENTITY.—For
7 purposes of this subsection, the term ‘qualified in-
8 vestment entity’ means—

9 “(A) a regulated investment company
10 (within the meaning of section 851), and

11 “(B) a real estate investment trust (within
12 the meaning of section 856).

13 “(f) OTHER PASS-THRU ENTITIES.—

14 “(1) PARTNERSHIPS.—In the case of a partner-
15 ship, the adjustment made under subsection (a) at
16 the partnership level shall be passed through to the
17 partners.

18 “(2) S CORPORATIONS.—In the case of an S
19 corporation, the adjustment made under subsection
20 (a) at the corporate level shall be passed through to
21 the shareholders.

22 “(3) COMMON TRUST FUNDS.—In the case of a
23 common trust fund, the adjustment made under sub-
24 section (a) at the trust level shall be passed through
25 to the participants.

1 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

2 “(1) IN GENERAL.—This section shall not apply
3 to any sale or other disposition of property between
4 related persons except to the extent that the basis
5 of such property in the hands of the transferee is a
6 substituted basis.

7 “(2) RELATED PERSONS DEFINED.—For pur-
8 poses of this section, the term ‘related persons’
9 means—

10 “(A) persons bearing a relationship set
11 forth in section 267(b), and

12 “(B) persons treated as single employer
13 under subsection (b) or (c) of section 414.

14 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
15 MENT.—If any person transfers cash, debt, or any other
16 property to another person and the principal purpose of
17 such transfer is to secure or increase an adjustment under
18 subsection (a), the Secretary may disallow part or all of
19 such adjustment or increase.

20 “(i) SPECIAL RULES.—For purposes of this section:

21 “(1) TREATMENT AS SEPARATE ASSET.—In the
22 case of any asset, the following shall be treated as
23 a separate asset:

24 “(A) A substantial improvement to prop-
25 erty.

1 “(B) In the case of stock of a corporation,
2 a substantial contribution to capital.

3 “(C) Any other portion of an asset to the
4 extent that separate treatment of such portion
5 is appropriate to carry out the purposes of this
6 section.

7 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
8 THROUGHOUT HOLDING PERIOD.—The applicable in-
9 flation ratio shall be appropriately reduced for peri-
10 ods during which the asset was not an indexed asset.

11 “(3) NET LEASE PROPERTY DEFINED.—The
12 term ‘net lease property’ means leased property
13 where—

14 “(A) the term of the lease (taking into ac-
15 count options to renew) was 50 percent or more
16 of the useful life of the property, and

17 “(B) for the period of the lease, the sum
18 of the deductions with respect to such property
19 which are allowable to the lessor solely by rea-
20 son of section 162 (other than rents and reim-
21 bursed amounts with respect to such property)
22 is 15 percent or less of the rental income pro-
23 duced by such property.

24 “(4) TREATMENT OF CERTAIN DISTRIBUTI-
25 ONS.—A distribution with respect to stock in a

1 corporation which is not a dividend shall be treated
2 as a disposition.

3 “(5) SECTION CANNOT INCREASE ORDINARY
4 LOSS.—To the extent that (but for this paragraph)
5 this section would create or increase a net ordinary
6 loss to which section 1231(a)(2) applies or an ordi-
7 nary loss to which any other provision of this title
8 applies, such provision shall not apply. The taxpayer
9 shall be treated as having a long-term capital loss in
10 an amount equal to the amount of the ordinary loss
11 to which the preceding sentence applies.

12 “(6) ACQUISITION DATE WHERE THERE HAS
13 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
14 WITH RESPECT TO THE TAXPAYER.—If there has
15 been a prior application of subsection (a)(1) to an
16 asset while such asset was held by the taxpayer, the
17 date of acquisition of such asset by the taxpayer
18 shall be treated as not earlier than the date of the
19 most recent such prior application.

20 “(7) COLLAPSIBLE CORPORATIONS.—The appli-
21 cation of section 341(a) (relating to collapsible cor-
22 porations) shall be determined without regard to this
23 section.

1 “(j) REGULATIONS.—The Secretary shall prescribe
2 such regulations as may be necessary or appropriate to
3 carry out the purposes of this section.”

4 (b) CLERICAL AMENDMENT.—The table of sections
5 for part II of subchapter O of chapter 1 is amended by
6 inserting after the item relating to section 1021 the follow-
7 ing new item:

“Sec. 1022. Indexing of certain assets for purposes of determining
gain or loss.”

8 (c) ADJUSTMENT TO APPLY FOR PURPOSES OF DE-
9 TERMINING EARNINGS AND PROFITS.—Subsection (f) of
10 section 312 (relating to effect on earnings and profits of
11 gain or loss and of receipt of tax-free distributions) is
12 amended by adding at the end thereof the following new
13 paragraph:

14 “(3) EFFECT ON EARNINGS AND PROFITS OF
15 INDEXED BASIS.—

**“For substitution of indexed basis for adjusted
basis in the case of the disposition of certain assets,
see section 1022(a)(1).”**

16 (d) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to dispositions after December 31,
18 1994, in taxable years ending after such date.

1 **SEC. 4. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**
 2 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**
 3 **RESIDENCE.**

4 (a) IN GENERAL.—Subsection (c) of section 165 (re-
 5 lating to limitation on losses of individuals) is amended
 6 by striking “and” at the end of paragraph (2), by striking
 7 the period at the end of paragraph (3) and inserting “;
 8 and”, and by adding at the end the following new para-
 9 graph:

10 “(4) losses arising from the sale or exchange of
 11 the principal residence (within the meaning of sec-
 12 tion 1034) of the taxpayer.”

13 (b) EFFECTIVE DATE.—The amendment made by
 14 subsection (a) shall apply to sales and exchanges after De-
 15 cember 31, 1994, in taxable years ending after such date.

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